

**STATEMENT OF PROFESSOR LINDA J. BILMES
KENNEDY SCHOOL OF GOVERNMENT
HARVARD UNIVERSITY**

MARCH 13, 2007

**US HOUSE OF REPRESENTATIVES
VETERANS AFFAIRS COMMITTEE
Subcommittee on Disability
Assistance and Memorial Affairs**

Thank you for inviting me to speak to you today on this important topic.

By way of background, last year I co-authored, with Nobel laureate Professor Joseph Stiglitz, a paper that analyzed the economic costs of the Iraq War. One of the long-term costs we identified is the cost of providing lifetime disability benefits and medical care for veterans. After we published the paper, a number of prominent veterans' organizations approached us. They argued that we had underestimated the cost of providing veterans care, primarily because we had not included all the soldiers who would potentially become eligible to claim benefits. They urged me to do additional research into this topic. As a result I wrote a second paper this year, specifically looking at the cost of providing medical care and disability benefits to veterans deployed in Operation Iraqi Freedom and Operation Enduring Freedom (OIF/OEF). [The paper, *Soldiers Returning from Iraq and Afghanistan: The Long-term Costs of Providing Veterans Medical Care and Disability Benefits*, KSG Research Working Paper RWP07-001 has been submitted for the record.]

To date, over 1.4 million US servicemen have been deployed to operations in and around Iraq and Afghanistan¹. The servicemen who have been officially wounded in combat are a small percentage of the veterans who will be using the veteran's administration system. Hundreds of thousands of these men and women will be seeking medical care and claiming disability compensation for a wide variety of disabilities incurred during their tours of duty. Disability compensation is thus a significant long-term entitlement cost that will continue for at least the next forty years.

Today I would like to focus on the projected number of veterans' claims, the capacity of the Department of Veterans Affairs to process those claims, and the cost of providing benefits to returning OIF/OEF soldiers. I would like to discuss five key areas of concern and then to recommend five changes that I believe would streamline the claims process.

- First, the Veterans Benefits Administration (VBA) is overwhelmed with the volume of claims it is receiving, leading to a huge backlog;
- Second, the claims process is unnecessarily long, cumbersome, and paperwork-intensive;
- Third, the wars in Iraq and Afghanistan wars are rapidly turning the disability claims problem into a crisis;
- Fourth, the long-term cost of providing disability benefits to GWOT veterans is projected to be \$70 to \$150 billion, in today's dollars, and

¹ As of September 30, 2006, 1,406,281 unique service members have been deployed to the wars in Iraq and Afghanistan, according to the Department of Defense, Defense Manpower Data Center, and "Contingency Tracking System." The Veterans Health Administration (VHA) Office of Public Health and Environmental Hazards, November 2006 uses the number 1.4 million (as of November 2006). The Veterans Benefits Administration (VBA) lists 1,324,419 unique servicemen deployed to GWOT as of May 2006 (prepared by VBA/OPA&I, 7/20/06).

- Fifth, the growing number of disability claims has increased demand for veteran's medical examinations, which is adding to the pressure on veteran's health facilities.

I will review these points first, and then I will offer my recommendations.

First, the VBA is currently overwhelmed with the volume of claims it is receiving, leading to a huge backlog. In 2006, the VBA received over 800,000 claims. Secretary Nicholson testified last month that he expects to receive 1.6 million additional claims in the next two years. These include both new claims from returning OIF/OEF veterans as well as claims from veterans who are already service-connected, mostly for conditions that have worsened since their initial claim. My own projections show that between 250,000 and 400,000 of these claims will be new applications from soldiers currently serving in Iraq and Afghanistan.

The number of pending claims has risen from 69,000 in 2001 to more than 400,000 as of December 2006. Including the back-and-forth of paperwork related to claims, the VBA currently has a backlog of more than 600,000.

Second, the claims process itself is long, cumbersome and paperwork-intensive. The VBA takes an average of 177 days (about 6 months) to process an initial claim, and an average of 657 days (about 2 years) to process an appeal. This is 22% below the agency's own target goal of 145 days. It is also far below the standards of the private sector medical insurance industry, which settles 30 million insurance claims -- including appeals -- within an average of 89.5 days.

Back in 2000, before the current war, the GAO identified longstanding problems in the claims process. These included large backlogs of pending claims, lengthy processing times for initial claims, high error rates in claims processing, and inconsistency across regional offices.

The process for ascertaining whether a veteran is suffering from a disability, and rating the percentage level of a veteran's disability, is too complex. A veteran must apply to one of the 57 VBA regional offices, where a claims adjudicator evaluates the veteran's service-connected impairments and assigns a rating for the degree to which the veteran is disabled. Claims specialists must determine the percentage disability for each condition, in increments of ten. However, conditions are not scaled monotonically from 0 to 100. Mental conditions, for example, are rated: 0, 10, 30, 50, 70, or 100. Coronary artery disease ratings are: 10, 30, 60, and 100. Spinal conditions are rated: 10, 20, 30, 40, 50, and 100. A huge amount of time is devoted to making these determinations.

If a veteran disagrees with any part of the regional office's decision, he or she can file a notice of disagreement with the local office. If this is rejected, the veteran may file a formal appeal and the claim will be physically transferred to the Board of Veterans Appeals based in Washington, DC, which is not part of VBA. The Board may then grant, deny, or remand the claim, in whole or in part. If the veteran still disagrees with the

board, the veteran may appeal to the courts. This process often takes years during which the veteran is left in limbo.

Moreover there is a wide disparity in efficiency between individual VBA offices. Regional offices are inconsistent in how they rate disabilities. GAO found that the days needed to process a claim ranged from 99 in Salt Lake City to 237 in Honolulu. Some of the states providing the most soldiers for the war are suffering the longest delays in claims adjudication.

In addition, the claims themselves are more complicated than in previous conflicts. Vietnam era claims cited on average three disability conditions. Gulf War veterans filed on average for four conditions. In the current conflict the average claim includes five separate disability issues. One-quarter of the new claims filed in 2006 cited 8 or more disabilities. Often these involve complex battle related injuries, as well as traumatic brain injury, PTSD, or complications from chronic diseases. Since each item within a claim is treated separately, there is a great deal of duplication and delay.

The VBA has more than 9,000 claims specialists. Many are themselves veterans, and they generally do a wonderful job in assisting veterans obtain the maximum amount of benefits to which they are entitled. But they are under enormous strain. They are required to assist the claimant in obtaining evidence, in accordance with hundreds of arcane VBA regulations, policies, procedures and guidelines. They must also rate the claims, establish claims files, authorize payments, conduct in-person and telephone interviews, process appeals and generate various notification documents through the process. New employees require about 18 months to become fully trained. The VBA has antiquated IT systems that make it difficult for the claims specialists to do their job efficiently. For example, many staffers are dependent on unreliable old fax machines to obtain vital documentation from veterans and medical providers.

For all these reasons I believe that the agency as currently structured is simply not capable of settling the current and projected volume of claims in a timely manner.

My third point is that the projected number of claims from the wars in Iraq and Afghanistan wars will rapidly turn the disability claims problem into a crisis. The current conflict has the highest incidence of non-mortal casualties in US military history: a ratio of 16 woundings or injuries per fatality. To date, of the more than 1.4 million US soldiers who have been deployed, about 631,000 have been discharged. One-third of these men and women - about 205,000 - have already been treated and diagnosed at VHA hospitals and clinics, and 180,000 have applied for disability benefits. If returning GWOT soldiers claim benefits at the same rate as veterans from the first Gulf War, we can expect 638,000 unique new first time claims in the next five years. If all troops return home by 2008, there are likely to be more than 400,000 new claims by the end of 2009 alone.

Fourth, the cost of providing disability benefits to GWOT veterans is projected to be between \$70 billion and \$150 billion in 2007 dollars². The cost is not the only issue here, but it is yet another major cost of war that has not been anticipated by the Administration. The eventual cost will depend on several factors, including the number of troops stationed in Iraq and Afghanistan and the length of time they are deployed. It will also depend on the rate of claims and utilization of benefit programs by returning troops and the rate of increase in disability payments (including cost-of-living adjustments). My study did not take into account the additional costs of nursing home care, concurrent receipt pay, or the social and economic cost to society of these disabilities.

In order to project the number of claims for the current conflict, I looked at the claims history of veterans from the first Gulf War. We currently pay over \$4 billion per year in disability claims for that war, even though it was short and had relatively few casualties. The cost of providing benefits to GWOT veterans will be higher by an order of magnitude.

The “best case” low scenario cost of \$71 billion (present value discounted at 4.75% over 40 years) assumes the total number of soldiers deployed does not exceed 1.4 million, that all troops come home by 2010, and that GWOT veteran’s disability claims show a similar profile to Gulf War veterans – that is, 44% claim some level of disability and 87% of those claims are at least partially granted. This scenario assumes that 643,000 GWOT veterans eventually claim benefits, that the average payment to a veteran is the same as the average to a Gulf War veteran (\$504 per month) and that the veteran receives an average annual cost of living adjustment of only 2.8%

The moderate scenario – which is looking increasingly likely -- assumes that the conflict involves a total of 1.7 million servicemen, including keeping a small US presence in the region through 2015, and that 747,000 GWOT soldiers file claims. The present value cost of this scenario, assuming that cost-of-living adjustments are 4.1% (the amount given this year) and average payment is in line with Gulf War veterans, is \$109 billion.

The “high” scenario assumes that two million servicemen are deployed to GWOT through 2015, that 50% of veterans file disability claims, and that benefits increase at a compound annual growth rate of 6.1%, which is the actual rate of increase over the past 10 years. Here I have estimated the monthly benefit at \$716, which is the average benefit to all veterans today. Under this scenario I project 869,000 successful claimants and a total present value cost of \$125 billion. If the amount of the GWOT veterans claims were to equal the level of Vietnam veterans, the cost would rise beyond \$150 billion.

Fifth, the growing number of disability claims is creating additional demand for veterans’ medical examinations. This is adding to the pressure on veterans’ health facilities. The current system does not guarantee that all soldiers receive complete physicals in the military upon discharge. Even if the soldier does obtain a complete physical exam prior to discharge, he or she cannot automatically transfer that information

² The discount rate used for this analysis was 4.75%.

to the VBA for use in certifying disabilities. Consequently, newly discharged veterans who intend to file any kind of disability claim are seeking medical examinations from VBA health facilities primarily in order to document their disabilities. The VBA health facilities already face a major challenge to provide first rate care for the large volume of soldiers returning from the Iraq and Afghanistan. My point is that the complexity of the claims process itself is diverting valuable medical resources away from providing treatment into supporting the claims process itself. Veterans are seeking appointments with doctors in the VBA, not because they require immediate treatment, but rather to verify a disabling condition – even in cases where it was already documented upon discharge from the military.

RECOMMENDATIONS

The veterans returning from Iraq are suffering from the same problem that has plagued many other aspects of the war, namely a failure to plan ahead. The VBA has many initiatives underway to streamline the benefits process. But these efforts are unlikely to be fully implemented in time to help the returning Iraq and Afghanistan war veterans.

To address the immediate backlog, Secretary Nicholson proposes to hire 457 additional claims specialists, to increase the claims processed per specialist from 98 to 101, and to make training manuals more readily available. He projects this will cut the length of time it takes to process a veteran's claim by 32 days in 2008. I am not optimistic that a few hundred inexperienced new staffers (even assuming they can all be hired quickly) will produce a 22% improvement in claims processing time, during a period in which the agency faces a huge influx of complex claims. Indeed it is conceivable that the task of training and integrating a large number of inexperienced hires will in the short term actually lengthen claims processing times and increase the level of appeals. The problem is compounded by the fact that many experienced VBA personnel will be retiring over the next five years.

I believe that finding an answer to the claims problem requires us to think outside the box. I would like to offer several proposals that do this.

1. First, for the next two years, the VBA should accept and pay all disability claims by returning GWOT soldiers at face value -- and then audit a sample of them. This is essentially the same system that is used elsewhere in government, for example, the IRS for taxes and the SEC for filings. This idea would involve retraining some of the claims specialists as auditors, freeing up the remaining specialists to focus on assisting non GWOT veterans claims, which should reduce the backlog of old claims. At the same time, this bold step would ensure that new claimants do not fall through the cracks or endure months of bureaucratic delay.

2. Second, the VBA should replace the cumbersome 0-100 scale for disabilities with a simple four-level ranking: zero disabled, low disability, medium disability, and high disability. This would immediately streamline the process, reduce discrepancies between regions, and likely cut the number of appeals. The VBA should create a “short

form” for returning veterans, using this four-level ranking and set a goal of processing all claims within 60 days of receipt. This new system should be up and running within two years, including retraining of the workforce and developing necessary guidelines and appeals procedures.

3. Third, all soldiers serving in the GWOT should receive a mandatory full medical examination at discharge, with all records from this examination made available electronically to the VBA immediately. The VBA should then be able to use these records to spot check and audit claims and to assist veterans, and to relieve some of the pressure on VBA. If veterans are discharged without full medical examinations, they should be reimbursed to receive such an examination from any fully accredited physician within 30 days of discharge, and this record should be used by VBA for making claims awards.

4. Fourth, VBA should shift its focus away from claims processing and onto rehabilitating and reintegration of veterans. The VBA has a dedicated staff who wants to help veterans. Instead of using them to process papers, we should use this workforce as a strategic asset. The VBA staff should be given much greater discretion in helping veterans. Claims specialists should be placed in all neighborhood veterans’ centers, help centers, and special centers to assist reservists and Guardsmen.

5. Fifth and finally, Congress should enact Senate Bill.117, the Lane Evans Veterans Healthcare and Benefits Improvement Act of 2007, sponsored by Senators Obama and Snowe. This legislation would improve data collection and monitoring of disability claims, improve access to mental health care and create a more level playing field for Guards and Reservists.

Thank you very much for your time and attention today. I would be pleased to answer any questions you may have.